

## ***Forum Series on the Role of Institutions in Promoting Economic Growth***

Comments by Stephen Knack on Clifford Zinnes and J. Robert Subrick's *"When is further reform growth-enhancing?"*

### **Forum 5: NIE-Based Toolkits for USAID Applications**

#### **Session 3**

14 February 2003  
Washington, D.C.

1. The paper offers various reasons, none of them elaborated very much, as to why the impact of trade reform on growth might vary with "institutional quality." I think you should focus on a subset of these, and develop the arguments more. In the current paper, I think some of your arguments really imply only that trade reform depends on institutional quality (e.g. mechanisms for credibly promising compensation to losers) or that trade and investment depend on "institutions" (e.g. establishing secure property rights encourages trade & investment. You need a good story about what (and how) institutions condition the impact of trade openness on income levels -- because that's what your empirical tests are all about. You should also discuss how closely your measure of institutional quality conforms to the theoretical/conceptual argument: does the definition of ICRG's law & order variable at least roughly reflect your argument?

2. I see the paper as a useful qualification to and extension of the cross-country empirical literature on the impact of trade openness. The findings are relevant in the same way that findings from many studies are. (There was a comment from the floor appearing to dismiss the paper because it relied on crude cross-country data, but much of the evidence linking trade openness to growth is also based on cross-country data.) But I don't see anything different about the paper making it especially useful as a tool for USAID, or model for how it should approach policy reform. One-size-doesn't-fit-all is a message that might be important for people who try to over-generalize from cross-country empirical studies, but aid practitioners (as opposed to academic researchers) are probably already too hesitant to make generalizations at all.

3. As I mentioned previously, you should be more explicit and transparent about the empirical work--what are the units of analysis, how do you handle non-independence of errors within each set of country observations, etc.

4. I mis-spoke earlier on whether your 1st-stage instruments were valid. I was thinking in terms of Shang-Jin Wei's paper, in which he used predicted trade values in his 2nd-stage corruption regression. But obviously you're using the residual trade values in your 2nd stage.



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5. There are a few cites you might add. On openness & growth (pp. 7-8), Alesina-Spolaore-Wacziarg find the impact of openness depends on country size (this was an old Mancur Olson hypothesis growing out of his Rise & Decline of Nations work). Helliwell has probably done the most/best work on the impact of national borders on trade (p. 9). Robert Deacon has papers on how government with short time horizons will over-extract natural resources (p. 10).



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